

## APPENDIX 1 – SUMMARIES OF COMPLETED AUDITS

### A. CORPORATE

#### A1 Purchase Card Review

The purpose of the review was to analyse expenditure on Council Credit Cards, Travel Cards and Procurement Cards to review:

- The effectiveness of how the use of cards is managed and monitored.
- Volume of spend before / after spending freeze.
- Delegated authorities.
- Card Issue and exit arrangements.
- A sample of purchases for probity.

At the time of the review, there were 183 Purchase Cards, 90 Travel Cards and 7 Credit Cards with an approximate spend of £80,000 per month.

Based on the completion of the fieldwork, a **Limited Assurance** Audit Opinion was assigned. The key **areas of compliance / good practice** identified during the review are summarised as follows:

- Card expenditure declined following the spending “freeze” in December 2016.
- Cards can only be issued by the Finance Department upon authorisation by a Service Director.
- Audit testing identified that no spend was linked to cardholders who had left the Council.

The audit also identified the following **areas for improvement**, for which 10 recommendations were made:

- No one had overall responsibility for the purchase card system.
- Spend via cards with some suppliers exceeded £15,000 per annum (the amount at which quotes should be sought) and savings may be possible via tendering and framework contracts.
- Spend on emergency accommodation was relatively high.
- A list of preferred suppliers was not readily available for cardholders.
- There were no controls in place to verify ongoing cardholder details (e.g. whether they are still an employee) and names on cards often differed from names held on payroll.
- There were no regular checks carried out to cancel cards of leavers and, prior to the audit, cards had not been cancelled for employees who in some cases had left BCC up to 6 years ago.
- Card spend was not always analysed by budget holders.
- Statements of Purchase card spend were not always uploaded to the ledger in a timely manner.
- Documentary evidence (e.g. receipts) was not supplied for 27/44 of the card transactions tested.
- Spend on travel cards was not restricted to travel alone.

All recommendations were agreed for implementation.

## **A2 Valuation Process Review – Sale of Port Freehold**

### **Background**

The Tenant had held the leasehold on the land situated at the Port of Bristol (POB) since 1991, prior to which the POB was fully owned and operated by Bristol City Council (BCC). The leases that were sold to the Tenant were for 150 years at a peppercorn rent, and as such the income to the Council was not material.

Since the leasehold purchase, the Tenant had periodically expressed an interest in purchasing the freehold for the land on which the port is situated, in order to expand its business and open the POB up to larger ships/containers. Additionally, in the report to Cabinet in 2014, the stated benefits of a sale also included that the further expansion of the POB would bring additional prosperity to the Bristol region as a whole and not just to the Tenant and the POB.

In March 2012, the Tenant put forward an offer of £3.85m for the freehold, which was subsequently declined. Prior to the rejection, however, a valuation was commissioned by the Council's Property Division, with the 'Terms of Engagement' and subsequent Valuation report having been sent to the (then) Service Director of Finance/S151 Officer.

The valuation was provided based on both the 'Market Value' and the 'Worth' of the asset to a particular tenant, including considering the value the tenant may realise in the future should they gain the freehold.

Following the above offer from the Tenant not being accepted, a further offer was made in March 2014, after discussions between the Tenant and BCC which commenced in December 2013. The revised offer was for £10m.

As the previous valuation was commissioned two years previously, it was considered prudent to commission a further external valuation, initially from the valuer who provided the original valuation, but due to delays and the proposed level of liability, the Service Director: Property determined not to proceed, but to engage another valuer instead. The terms of the engagement required the valuer to value the POB on a 'Market Value' basis; however their final evaluation was based on the 'Marriage Value'. The cost of the valuation was £15,000.

### **Scope**

A concerned member of the electorate requested an independent review of the decision making process in respect of the sale of the freehold of the Port of Bristol.

In summary, the concerns raised were that the valuation process was not robust leading to the decision making process being flawed and that collectively the sale was illegal.

### **Summary of Findings and Conclusions**

#### **Valuation Procurement Exercise for 2<sup>nd</sup> Valuation:**

Procurement Regulations require that when the estimated cost of a contract is £15,000 or less one written quotation should be obtained before proceeding, this process was not followed in the case of the engagement of the 2<sup>nd</sup> Valuation, due to time constraints.

## **Valuation Methodology and Determination of Best Consideration**

Both of the valuations were undertaken in line with the Royal Institute of Chartered Surveyors (RICS) -Red Book guidance, with both taking consideration of the benefits to the leaseholder should they obtain the freehold. It was the view of the Service Director: Property that this demonstrated that the valuers had taken account of the 'special purchaser' status of the Tenant. It is Internal Audit's view that the valuations took account of the elements that would be expected in the case of a 'special purchaser', as in the additional worth to the Tenant should they own the freehold, as such the valuations were considered appropriate.

Internal Audit was informed by the Service Director: Property that in the majority of asset sales, a 'Heads of Terms' is raised as part of the process, and while this document is not enforceable, it does provide a written record of what was agreed. A 'Heads of Terms' was not, however, raised for the sale of the POB, and as such there was no clear audit trail of the negotiation discussions and what was agreed.

## **Adherence to Legislative Requirements**

As the valuations commissioned for the POB had, in the view of the Service Director: Property, taken into consideration the 'special purchaser' status of the Tenant, and the offer of £10m was 38% higher than the top valuation, Ministerial Approval was not required or sought.

## **Good Practice Identified**

To ensure that the Council can demonstrate good governance in the sale of assets in the future and mitigate risks of reputational damage, the following good practice points were identified to be applied to any high value sale of Council Assets:

- Any offer received or solicited for Council assets should be formally recorded by way of a 'Heads of Terms', otherwise the Council is at risk of losing transparency in the sale transaction, as well as coming under scrutiny should the sale price be in dispute.
- Negotiations for significant financial transactions should be confirmed in writing, copying the correspondence to a second party in order to protect any one individual in terms of challenge, and to provide for backup in the event that the leading officer is not available.
- Formal records of negotiations should be maintained so there is a clear 'audit trail' of what has been discussed and agreed, who agreed it and when it was agreed. Documenting this process will allow the Council to demonstrate that best practice has been applied and that "best consideration' has been achieved. It will also aid the Council in the event of a challenge.
- Procurement regulations should always be followed, however where procurement regulations are not followed due to business need then the process followed and the reason for this should be documented and a waiver sought. Otherwise, the Council cannot demonstrate that it has achieved best value in the transaction.

The Good Practice identified will be followed up by Internal Audit in conjunction with the follow up to the Disposal of Assets review conducted in 2016/17.

## **B. NEIGHBOURHOODS**

### **B1 National Non-Domestic Rates (NNDR) Collection**

The objective of the audit was to review control mitigations to manage the risks in the following areas:

- Collection of income in accordance with statutory requirements.
- Ensuring all income received is promptly allocated to the correct account
- Ensuring that income is monitored.
- The discount and exemption process.
- The refunds and write off process.

Based on the completion of the fieldwork, a **Reasonable Assurance** Audit Opinion was assigned. The key **areas of compliance / good practice** identified during the review are summarised as follows:

- There are broadly good policies and procedures over the annual billing process.
- NNDR bills are compliant with legislation and evidence is retained to substantiate the actions taken by staff in issuing bills.
- A review of the different payments methods for NNDR found that monies received were accurately accounted for within a reasonable timeframe.
- NNDR suspense accounts are reviewed on a regular basis.
- Refunds are appropriately authorised as per the Refund Procedure.
- Discounts and Exemptions were applied correctly with evidencing of the reason for the discount and exemption being applied for 95% of the sample.

The audit also identified the following **areas for improvement**, for which 8 recommendations were made, which included:

- NNDR Group Leader system security access to be reviewed.
- The NNDR Suspense Account procedure document and the Valuation and Inspection procedure required updating.
- The Write Off Policy allows the same person to create and authorise a write off.

All recommendations were agreed for implementation.

## C. PEOPLE

### C1 Bristol Hospital Education Service (BHES)

The objective of the audit was to provide an independent audit opinion on the effectiveness of internal controls relating to financial arrangements at BHES, including the following arrangements:

- Governance arrangements.
- Expenditure.
- Income.
- Budgetary Control.
- Payroll monitoring arrangements.
- Asset Management.
- Information Security.
- Business Continuity Planning.

Based on the completion of the fieldwork, a **Reasonable Assurance** Audit Opinion was assigned. The key **areas of compliance / good practice** identified during the review are summarised as follows:

- Financial Surplus for 2016/17.
- Close monitoring of individual staff hours, which is central to budgetary control.

The audit also identified the following **areas for improvement** to ensure compliance with expected controls or evidence that the control has been operated, for which 13 recommendations were made, including:

- The need for a Data Protection Policy.
- The evidencing of actions arising from budget monitoring.
- Inaccurate financial forecasting (although surplus achieved).
- Purchase Orders were raised retrospectively for 40% of the invoices included in the audit sample.
- Employment status checks for creditors not consistently undertaken.
- Independent checks of credit card statements and receipts not completed/ documented.
- The need for BHES to complete a Business Continuity Plan.

All recommendations were agreed by management for implementation.

## C2 St Mary Redcliffe Primary School

The objective of the audit was to provide an independent audit opinion on the effectiveness of internal controls relating to financial arrangements at the school, including the following arrangements:

- Governance arrangements.
- Expenditure.
- Income.
- Budgetary Control.
- Payroll monitoring arrangements.
- Asset Management.
- Information Security.
- Business Continuity Planning.

Based on the completion of the fieldwork, a **Reasonable Assurance** Audit Opinion was assigned. The key **areas of compliance / good practice** identified during the review are summarised as follows:

- Financial Surplus for 2016/17.
- Good controls over personal data.
- Good arrangements for business continuity.

The audit also identified the following **areas for improvement** to ensure compliance with expected controls or evidence that the control has been operated, for which 3 recommendations were made:

- Purchase Orders were raised retrospectively for 30% of the invoices included in the audit sample.
- Reconciliation between expected and actual income for school meals.
- The need to obtain quotes prior to the placing of an order exceeding £10,000 as required by School Financial Regulations.

All recommendations were agreed by management for implementation.

## PLACE

### D1 Security Services / Cash In Transit

The objective of the audit was to review control mitigations to manage the following risks:

- Business Continuity.
- Security.
- Collection/ Reconciliation/ Banking processes.
- Security Industry Authority (SIA) Registration.
- Overtime Control and Authorisation.

Based on the completion of the fieldwork, a **Reasonable Assurance** Audit Opinion was assigned. The key **areas of compliance / good practice** identified during the review are summarised as follows:

- Cash Collection.
- SIA license applications and renewals generally up to date.
- Overtime control.

The audit also identified the following **areas for improvement**, for which 8 recommendations were made:

- SIA requirements for 2 specific officers to be obtained to finalise the licensing process.
- The Critical Service Continuity Plan to be reviewed.
- The adequacy of CCTV coverage and back up arrangements to be reviewed.
- Insurance cover for Business Interruption to be reviewed to ensure all risks are adequately covered.
- The contract for delivery of the services with an external organisation, which commenced in April 2016, needs to be signed.
- A review of the value of the total imprest held to be undertaken.
- Collections of donation boxes to be independently checked and recorded.
- The routine checking of parking meter tins to resume as soon as possible.

All recommendations were agreed for implementation.

## **D2 Sale of St Agnes Lodge**

### **Background**

Following concerns raised, Internal Audit was commissioned to review the sale process for St Agnes Lodge, a property listed as an “asset of community value” and offered for sale to third sector organisations.

In accordance with the surplus land procedures, the property was circulated internally to identify any alternate use for BCC. Since no expressions of interest were received, staff determined to offer the property for sale.

BCC has a formal scheme of delegation authorising appointed officers within the Property Services team to take decisions regarding best alternate use of the property. In this case, it was decided to generate capital receipts from the sale of freehold interest, in order to meet BCC's business objectives. With due consideration to the community asset value, however, Property Services staff determined to offer the property for sale only to third sector organisations through a bidding process, which could be evaluated using published criteria of price, deliverability and social benefits.

Property Team staff are authorised to evaluate bids and recommend a successful bidder to the Service Director, Property. To reflect the interests of the local community, however, staff decided to establish a panel to advise on the bids received. The panel evaluated 10 bids received and interviewed the eight eligible bidders. Each panel member scored the bidders independently and Property Services staff aggregated scores to identify a recommended bidder.

### **Scope**

The review covered the process adopted by the Council Property team regarding the sale, the consideration of bids and the evaluation process which led to the selection of the recommended bidder.

The review had regard to the Corporate Land Policy, the related guidance note on disposal of property and the approved scheme of delegation on property related matters to officers in designated posts.

### **Summary of Findings and Conclusion**

The concerns raised related to the use of a panel of Council staff and community representatives to advise on the sale and that the offer from the bidder recommended by the advisory panel was not the highest received and was below the sale agent's valuation of £250k.

Under the scheme of delegation, the authority for disposal lay with Property Service staff. There is no requirement to use a panel to advise on the bids received. The use of an advisory panel created extra work for the Property Services staff, but reflected staff's concerns to reflect the interests of the local community.

Internal Audit did not find any evidence that the process to determine a recommended bidder was fundamentally flawed. It is noted that the panel was unanimous in selecting a recommended bidder, which to an extent mitigates concerns over the process.

With regard to the recommended bidder not providing the highest bid, it is noted that the price was not the sole criteria established to assess bids. It is also noted that valuation guidelines from the Royal Institute of Chartered Surveyors (RICS) include that a 10% difference in valuation and agreed sale consideration is generally considered acceptable; in this instance the difference was 8%.

## **Recommendations**

In order to enhance the process for future disposals where an advisory panel is used have been made, 3 recommendations were made relating to:

- Summary notes to be taken of all panel meetings to demonstrate the activities undertaken and the rigour of the approach
- Notes of panel meetings to record requests for declaration of interest and panel members' responses' and a formal record be maintained of Declaration of Interests.
- Where possible, panel meetings and scorings to be completed on a single day.

All recommendations were agreed by management for implementation.